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C O N F I D E N T I A L SECTION 01 OF 03 MANAMA 001418

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TAGS: [ECON](#) [EFIN](#) [PGOV](#) [BA](#) [POL](#) [ECTRD](#)
SUBJECT: BY THE NUMBERS: BAHRAIN'S 2007-08 BUDGET

REF: A. MANAMA 1214
[1](#)B. 05 MANAMA 1581
[1](#)C. 05 MANAMA 900

Classified By: CDA Susan L. Ziadeh, reasons 1.4 (b) and (d).

SUMMARY

[1](#)1. (C) The King July 20 signed the GOB's biannual 2007-08 budget. The two-year budget was the subject of significant controversy because it was introduced to both councils of parliament on a "fast-track" basis (Ref. A). Buoyed by rising oil prices, it provides for sizable increases in urban development, education, and social spending. In addition, the Ministry of Housing and Public Works will receive substantial project funding for housing creation. However, it is unclear whether electricity and water infrastructure has been funded to keep pace with growing development. Funding for mortgage lending has also been generously addressed. The Ministry of Information tops the list of operating budget recipients. The 2007-08 budget demonstrates increased GOB transparency, though room for improvement remains. End Summary.

FAST-TRACK BUDGET RATIFIED

[1](#)2. (U) The King July 20 signed the GOB's 2007-08 budget. It had been passed unanimously July 15 by the Shura (Consultative) Council (Bahrain's appointed upper house). The two-year budget was the subject of significant controversy, principally because it was introduced on a "fast-track" basis. Though the Shura Council complied with the fifteen-day time constraint imposed by "fast-track," many expressed the hope that this would be the last time they would be called upon to consider a national budget on such an expedited basis.

[1](#)3. (U) Bahrain has a continuing infrastructure development agenda, oil prices are high, and 2006 is an election year for the Council of Representatives (COR, the elected lower house of parliament). In addition, both COR Members and the GOB are keen to address a housing shortage that has been a bone of contention among even the middle class. These factors have all combined this year to drive an expansionary fiscal policy for 2007-08, as evidenced by a 21.8 percent increase in spending over that allotted under the previous two-year budget. Urban development, education, and social spending top the government's priorities.

OIL REVENUE BONANZA

14. (U) The Prime Minister July 2 described the 2007-08 budget as "the most comprehensive and significant in Bahrain's history, boosting Bahraini citizens' standard of living, housing, educational, health, and social services." Budgetary expenditures, which will support these and other projects, are spread evenly between the two fiscal years. Of the total BD 3.79 billion expenditures allocated, BD 1.89 billion will be spent in 2007, with the remaining BD 1.9 billion expended in 2008. (Note: the Bahraini dinar is pegged to the U.S. dollar at BD 1 to USD 2.66 End Note.) The budget forecasts BD 2.84 billion in revenues, reflecting a BD 950 million deficit. However, the deficit has little practical meaning, since it assumes a crude oil market price of USD 40 per barrel. (Note: Petroleum processing revenues accounted for 76 percent of the GOB's income in FY 2005. End note.)

15. (U) Finance Minister Shaikh Ahmed bin Mohammed Al Khalifa defended the USD 40 per barrel budgetary estimate before the Shura, noting it was the highest in Bahrain's history. He said that, although the figure was lower than current world prices, it represented a hedge against future fluctuations that could lead the price of oil downward. He promised that actual oil revenues would be disclosed in the 2007-2008 closing budgets. (Note: The FY 2005 budget had forecast a BD 203 million deficit, based on USD 30 per barrel of oil. In fact, the year closed with BD 672 million in surplus revenues. End Note.)

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EDUCATION ADVANCED

16. (U) Providing context for the budget's education expenditures, the Prime Minister said, "the government's firm belief that the overall boost being witnessed by the kingdom on all economic, political, and social levels necessitates further investment in human resources." (Note: When Economic Development Board Chief Executive Shaikh Mohammed Bin Isa Al-Khalifa presented the GOB's economic reform blueprint October 2005 he said reforming Bahrain's education system was a critical factor for Bahrain's economic survival, as the country strives to maintain and/or boost its competitiveness in key sectors, including financial services, information technology, healthcare services, telecommunications, tourism and training services (Ref. B). End Note.) Bahrain University will get an additional BD 3.74 million for 2007. Funding for overseas scholarships has been doubled to BD 7 million. The GOB projects that this will provide funding for some 1583 high-achieving students. In line with the GOB's E-education initiative, an additional BD 2 million has been earmarked for computing equipment and instructional materials, largely to be sourced by Microsoft.

HOUSING HIGHLIGHTED

17. (U) Ministry allocations related to infrastructure reflect a recent trend in housing development, addressing a major bone of contention among even the middle class. BD 374.84 million is to be directed toward projects under the Ministry of Housing and Public Works, and BD 197.82 million has been allocated to the Ministry of Electricity and Water, though Shura Council Finance Committee Secretary Khalid Al Maskati questioned whether this was sufficient to support the country's rapid commercial and residential development. The budget also provides an extra BD 30 million for home loan financing. In addition, families on the housing waiting list for five years or more will receive BD 14 million between

them in allowances next year.

¶8. (U) The GOB has placed significant emphasis on urban development and housing creation in the Central Governorate and northern portions of the Southern Governorate. (Note: The Southern Governorate, including Hawar, constitutes roughly two-thirds of Bahrain's land mass. However, largely because it encompasses Bahrain's proven and exploratory oilfields, it remains the least populated of the country's five governorates. Nevertheless, it is the site of some important development, including the Al Areen Resort, the Riffa Views residential/commercial complex and the newly-constructed National Stadium. End Note.) Development in the immediate area of the recently-approved Bahrain-Qatar Causeway will also be particularly important once construction commences in 2008. More sewage networks and roads will also be built, especially in newly residential areas, which are still waiting for infrastructure enhancement.

SOCIAL SPENDING SURGE

¶9. (U) Funding for social services has also been generously addressed. Financial aid for the disabled will be doubled next year to BD 2.2 million, social welfare payments will be doubled to BD 8.4 million and an extra BD 2.85 million will be provided in other social aid. A further BD 15 million will finance early retirement for Bahraini government workers. In addition, a one-time BD 300 bonus will be paid on January 1 to retired government and private sector workers on pensions of BD 700 a month or less, at a cost of BD 5.6 million.

MOI: A KEY BENEFICIARY

¶10. (C) The Ministry of Information will receive substantial funding for continuous expenditures, more than any other ministry. Over fiscal 2007-08, BD 701 million, or roughly 25 percent of the continuous expenditure budget, will be devoted to the daily upkeep of the ministry. The continuous expenditures will mainly go to salaries for staff, including that of the Bahrain News Agency, Bahrain Radio, Bahrain TV. The Ministry of Information also supports culture and tourism programs that in other countries would be implemented by a

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ministry of culture or tourism. Ministry censors screen print and entertainment media for Islamic decency code violations. The ministry also monitors and enforces the protection of intellectual property rights. (Note: Ministry of Information operations are broadly viewed as expensive, bloated and inefficient. Despite the ministry's large budgetary allotment, rumors persist that an announcement of the GOB's reorganization of the ministry is in the offing. Key functions of the ministry would be privatized or reassigned. End Note.)

QUESTIONS REMAIN

¶11. (U) The 2007-08 budget did not address notable fiscal factors. For example, during Finance Committee deliberations, Shura Council member Al Maskati complained that the budget should have included pension funds, which are estimated to have a BD 2 billion budget deficit. Maskati also noted that the budget is silent on the GOB's foreign investment and whether or not it is profitable.

COMMENT

¶12. (C) The GOB's agreement to increase the forecast price of oil to 40 dollars per barrel represents progress in a drive begun in 2005, when the COR first openly challenged the GOB on its custom of calculating oil revenues based on overly conservative prices and then using the surplus income for discretionary development projects (Ref. C). However, there is clearly room for greater transparency. Even taking into account an expected increase in global refining capacity by late 2007, the GOB forecast stands at more than 25 percent below predictions of respected market analysts. Although actual oil revenues will subsequently be reported, it is unclear if there will be adequate accountability for the disposition of those funds. End Comment.

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